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Project CONGRESS
Materials Prepared for the Board of Directors

November 19, 2001

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Transaction Overview

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Transaction Overview

Key Transaction Terms

Term	Comments
Form/Structure	WATER acquires CONGRESS via merger with wholly-owned subsidiary of WATER
For-Profit Conversion	<p>Concurrently with the merger, CONGRESS (a not-for-profit company) will convert to for-profit status and will issue 100% of its outstanding capital stock to certain tax-exempt entities (the "Foundations") in accordance with applicable laws, at which time the Foundations will be the sole shareholders of CONGRESS</p> <ul style="list-style-type: none"> ◆ Foundation has already been created in Maryland ◆ Conversion may require creation of additional Foundations in Delaware and District of Columbia, and approval of insurance regulators in each jurisdiction (including U.S. Congress)
Purchase Price	\$1.3 billion of total consideration
Form of Consideration	<ul style="list-style-type: none"> ◆ Not less than \$450 million in cash but up to entire purchase price, at WATER's option ◆ \$850 million in WATER stock (or less if cash portion is greater than \$450 million) ◆ Fixed price structure for stock consideration <ul style="list-style-type: none"> • Number of WATER shares to be issued based upon WATER's 20 trading day average stock price ending on the 5th trading day prior to closing • Number of WATER shares issued adjusts with WATER stock price to maintain \$850 million (or other) value as long as WATER stock is above \$70 per share • WATER must maintain \$850 million value; if WATER's stock price at closing is below \$70 per share, WATER has the option to issue a subordinated note to maintain the \$850 million value
Subordinated Note	<ul style="list-style-type: none"> ◆ Callable at par at any time at WATER's option ◆ Coupon set to be at interest rate that would value note at its principal (face) amount ◆ Subordinated to all existing and future indebtedness except for WATER's zero coupon convertible subordinated debt ◆ 3-year maturity
Accounting Treatment	Purchase accounting with \$275.3 million of intangibles amortized over a blended period of 26 years (\$6.2 million of which is tax-deductible)

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Transaction Overview

Key Transaction Terms (continued)

Term	Comments
Board of Directors	WATER Board to include one CONGRESS director
Key Conditions to Closing	<ul style="list-style-type: none"> ◆ Conversion to For-Profit Status ◆ WATER Shareholder approval (if necessary) ◆ Approval of Maryland, Delaware and District of Columbia regulators, Blue Cross Blue Shield Association and U.S. Congress ◆ No Material Adverse Change ◆ Hart-Scott-Rodino clearance ◆ No litigation challenging transaction ◆ No materially burdensome conditions imposed by regulators
Break-up Fee	\$37.5 million (2.9% of equity value)
Key Termination Rights	<ul style="list-style-type: none"> ◆ Fiduciary out for CONGRESS Board of Directors, subject to 7-day right to match Superior Proposal ◆ Either party may terminate if WATER shareholders fail to approve transaction, if such approval is necessary ◆ Drop dead date of 3 years from execution of definitive agreement ◆ CONGRESS has walk away right if average WATER stock price at closing below \$50 per share
Timetable	<p>Formal WATER Board approval: November 19, 2001</p> <p>Formal CONGRESS Board approval: November 20, 2001</p> <p>Execution of Definitive Agreement and Transaction Announcement: Expected November 20, 2001</p> <p>Expected Closing: 12-36 months after announcement</p>

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Transaction Overview

Implied Multiples of Proposed Transaction

(\$ and Total Membership in millions, except per share data)

CONGRESS Purchase Price of Equity			\$ 1,300.0	
	Plus: Total Debt ^(a)		\$ 9.1	
	Less: Excess Cash & Equivalents ^(a)		(53.9)	
	Enterprise Value		<u>\$ 1,255.2</u>	
	Plus: Transaction Fees ^(b)			152.5
	Adjusted Enterprise Value			<u>\$ 1,407.7</u>
Enterprise Value as a Multiple of:		Statistic ^(c)	Enterprise Value	Adjusted Ent. Value
Operating Revenue	2001E	\$ 4,038.5	0.31 x	0.35 x
	2002P	4,450.1	0.28	0.32
	2003P	4,910.4	0.26	0.29
EBITDA	2001E	\$ 143.7	8.7 x	9.8 x
	2002P	186.7	6.7	7.5
	2003P	222.7	5.6	6.3
EBIT	2001E	\$ 105.4	11.9 x	13.4 x
	2002P	141.7	8.9	9.9
	2003P	172.7	7.3	8.2
Total Membership	September 30, 2001	3.102	\$ 404.6	\$ 453.8
Equity Value as a Multiple of:				
Net Income	2001E	\$ 98.0	13.3 x	13.3 x
	2002P	119.2	10.9	10.9
	2003P	147.9	8.8	8.8

- (a) Projected as of December 31, 2001 as per WATER and CONGRESS Managements.
 (b) Includes transaction fees, severance costs, change of control provisions and other merger related costs.
 (c) Projected and historical data as per WATER and CONGRESS Managements.

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Transaction Overview

Transaction Rationale

- ◆ Accelerates WATER's expansion into key strategic states
 - Currently leading player in California, Georgia, and, upon completion of RightCHOICE acquisition, Missouri, with selected geographic presence elsewhere (Midwest and Texas)
 - Entry into important geographic region (large population base) through leading player with #1 market share
- ◆ WATER's management team, widely regarded as best in the industry, can enhance growth and profitability of CONGRESS
 - Public-company discipline and access to capital will invigorate CONGRESS management team and its growth opportunities
 - Generate operational synergies
 - Shared Blue Cross Blue Shield background should ease integration
 - Stronger platform from which to continue national geographic expansion
- ◆ Enhances position in marketplace as the "Blue Consolidator of Choice"
 - Recent acquisition of Cerulean (Blue Cross Blue Shield of Georgia) and pending acquisition of RightCHOICE (Blue Cross Blue Shield of Missouri) have given WATER strong track record and momentum as the leading consolidator
- ◆ Transaction Risks
 - CONGRESS' Maryland HMO business has faced financial challenges
 - Integration risk (CONGRESS/Delaware and WATER/CONGRESS)
 - High public visibility
 - Significant regulatory approval process

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Overview of CONGRESS

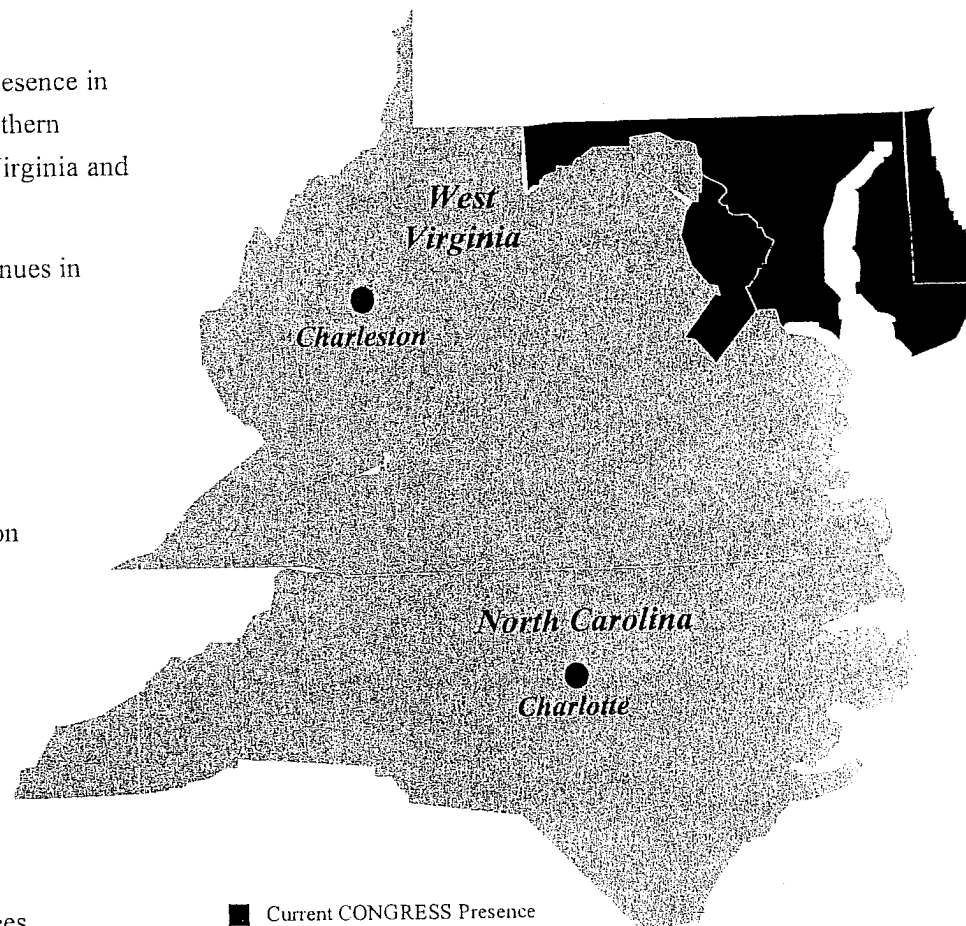
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Overview of CONGRESS

CONGRESS Business Overview

- ◆ An affiliation of Blue plans with presence in Delaware, D.C., Maryland and Northern Virginia, as well as TPA in West Virginia and North Carolina with:
 - \$4.0 billion of operating revenues in 2001E
 - 3.1 million members
 - 6,300 associates
 - Potential market of 7.5 million customers
 - #1 provider network in the Mid-Atlantic region
 - #1 market position in three licensed service areas
 - Largest provider of health insurance to federal employees
- ◆ Products include HMO, PPO, POS and Indemnity Plans

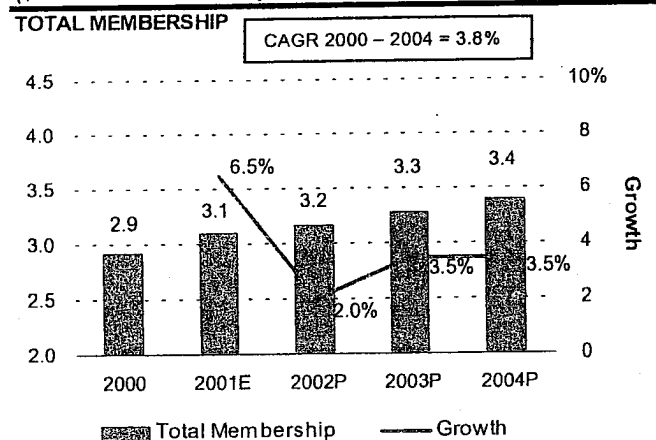


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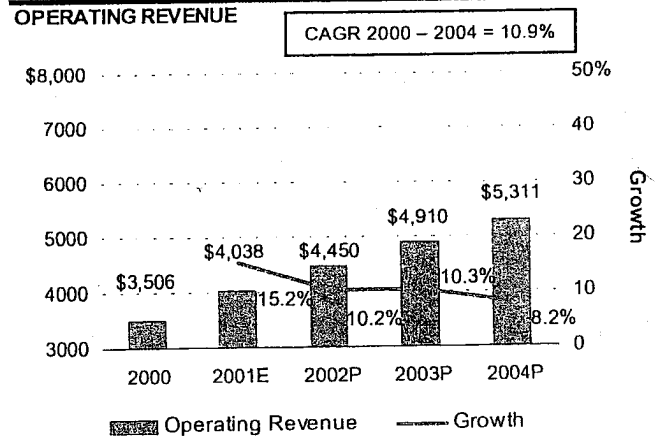
Overview of CONGRESS

CONGRESS' Projected Financial Performance (a)

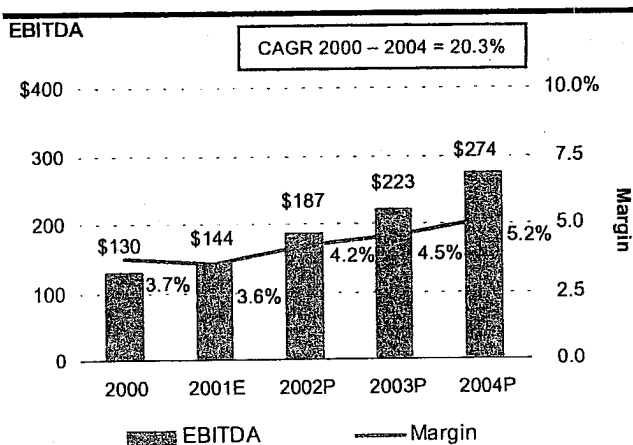
(\$ and Total Membership in millions)



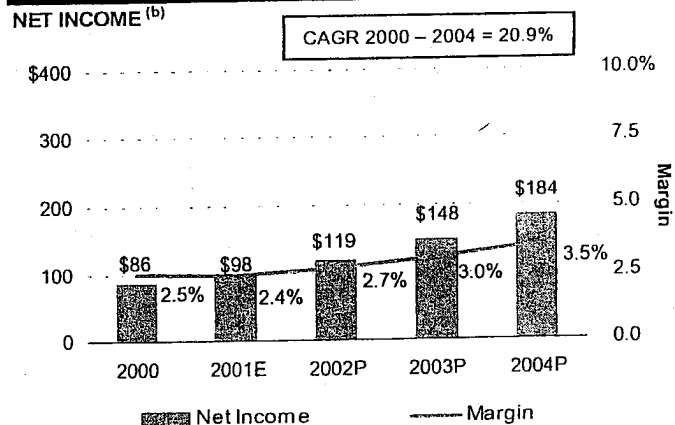
OPERATING REVENUE



EBITDA



NET INCOME (b)



- (a) Membership and financial statistics as per WATER and CONGRESS Managements.
 (b) Based on tax rate of 20.2%.

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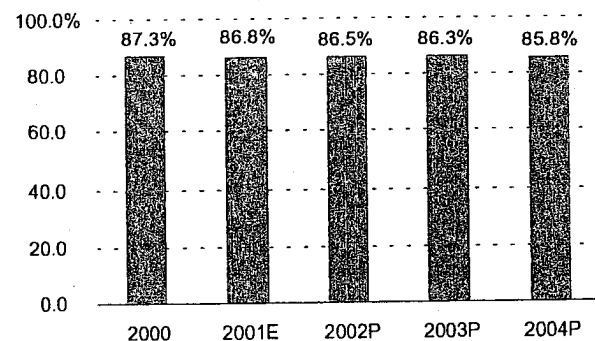


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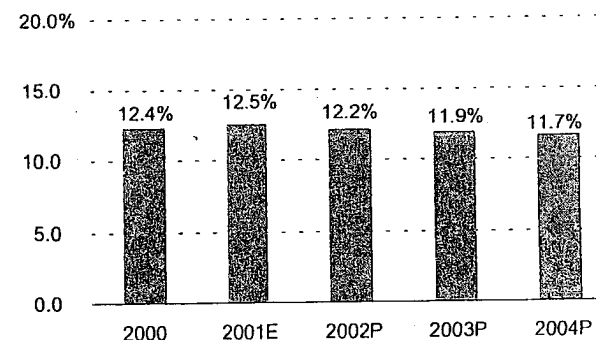
Overview of CONGRESS

CONGRESS' Projected Financial Performance (continued) (a)

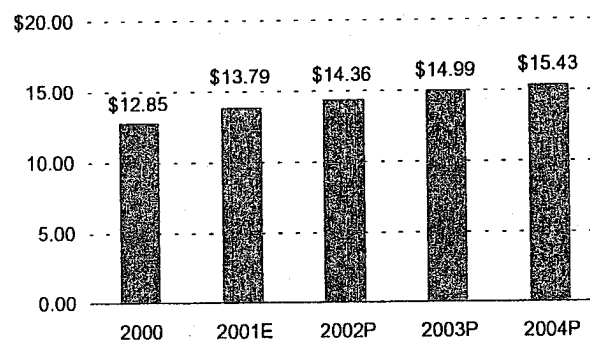
MLR



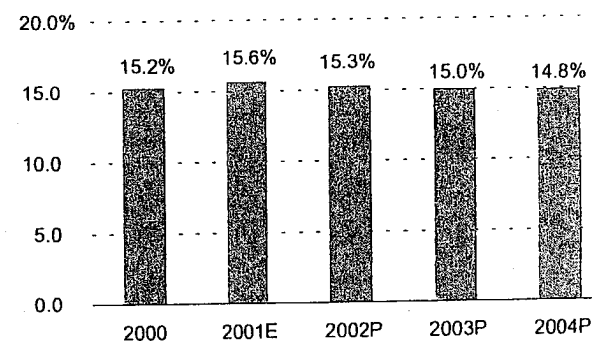
G&A MARGIN



TOTAL G&A PMPM



TOTAL SG&A MARGIN



(a) Financial statistics as per WATER and CONGRESS Managements.

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Overview of CONGRESS

CONGRESS' Projected Financial Performance (continued) (a)

(\$ and Total Membership in millions)

	Fiscal Years Ending December 31,							CAGR
	2000	2001E	2002P	2003P	2004P	2005P	2006P	2000 – 2006
Insured Membership	1.6	1.6	1.6	1.6	1.7	1.7	1.8	2.2%
ASO Membership	1.3	1.5	1.6	1.6	1.7	1.8	1.8	5.4%
Total Membership	2.9	3.1	3.2	3.3	3.4	3.5	3.6	3.7%
Operating Revenue	\$ 3,506.3	\$ 4,038.5	\$ 4,450.1	\$ 4,910.4	\$ 5,310.6	\$ 5,743.4	\$ 6,211.5	10.0%
Growth	—	15.2%	10.2%	10.3%	8.2%	8.2%	8.2%	
Operating Income	77.2	92.9	129.7	162.0	209.3	248.8	289.9	24.7%
Margin	2.2%	2.3%	2.9%	3.3%	3.9%	4.3%	4.7%	
EBITDA	130.4	143.7	186.7	222.7	273.5	316.3	361.2	18.5%
Margin	3.7%	3.6%	4.2%	4.5%	5.2%	5.5%	5.8%	
EBIT	94.8	105.4	141.7	172.7	213.1	244.6	285.2	20.2%
Margin	2.7%	2.6%	3.2%	3.5%	4.0%	4.3%	4.6%	
Net Income	86.1	98.0	119.2	147.9	183.8	216.1	257.5	20.0%
Margin	2.5%	2.4%	2.7%	3.0%	3.5%	3.8%	4.1%	
Capital Expenditures	61.3	62.0	65.0	70.0	76.0	82.4	89.4	6.5%

	Balance Sheet as of December 31,						
	2000	2001E	2002P	2003P	2004P	2005P	2006P
Restricted Cash & Inv.	\$ 926.6	\$ 1,006.2	\$ 1,068.2	\$ 1,139.0	\$ 1,196.3	\$ 1,261.1	\$ 1,330.9
Unrestricted Cash & Equiv.	50.0	53.9	116.9	215.1	349.1	517.0	722.3
Total Debt	\$ 18.1	\$ 9.1	\$ -	\$ -	\$ -	\$ -	\$ -
Stockholders' Equity	691.6	780.2	899.5	1,047.4	1,231.2	1,447.3	1,704.7
Book Capitalization	\$ 709.7	\$ 789.3	\$ 899.5	\$ 1,047.4	\$ 1,231.2	\$ 1,447.3	\$ 1,704.7
Total Assets	\$ 1,950.4	\$ 2,138.3	\$ 2,357.6	\$ 2,629.3	\$ 2,918.5	\$ 3,250.3	\$ 3,633.3

(a) Membership and financial statistics as per WATER and CONGRESS Managements.



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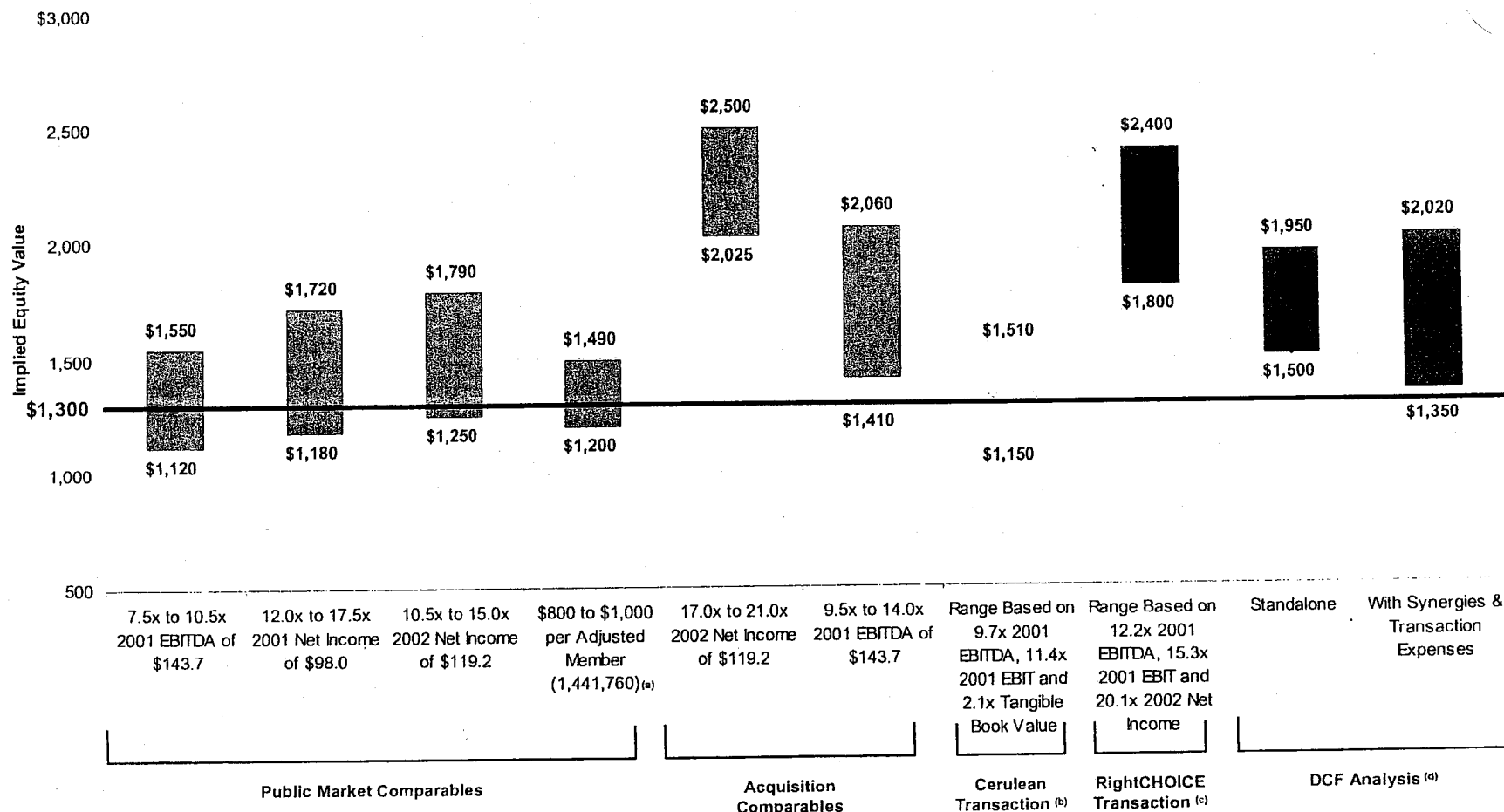
CONGRESS Valuation Considerations

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CONGRESS Valuation Considerations

Summary Valuation Analysis (\$ in Millions)



Note: Assumes \$9.1 million of debt and \$53.9 million in cash projected as of December 31, 2001 as per WATER and CONGRESS Managements.

(a) Includes 1,026,600 risk members and 2,075,800 non-risk members multiplied by a factor of 0.2.

(b) As per figures provided by WATER Management.

(c) As per public filings.

(d) Present values as of December 31, 2002.

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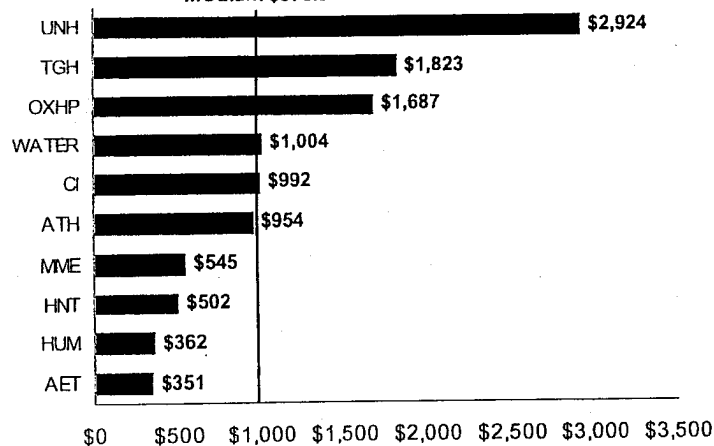


CONGRESS Valuation Considerations

Selected Publicly Traded Companies Analysis (a)

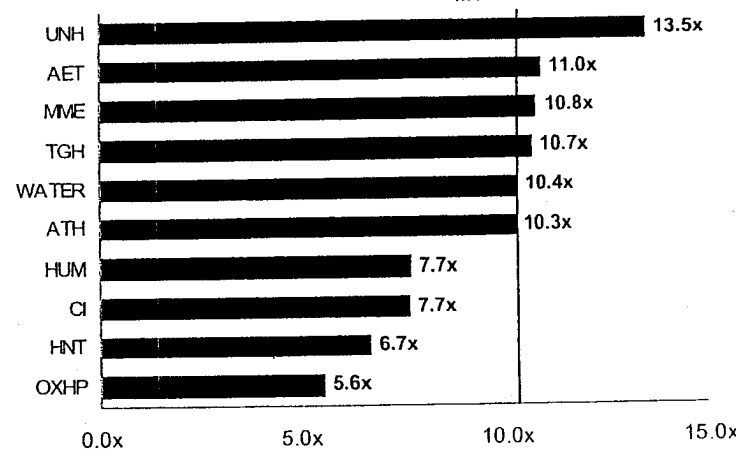
ENTERPRISE VALUE/TOTAL ADJUSTED MEMBERS (b)

Median: \$973.2



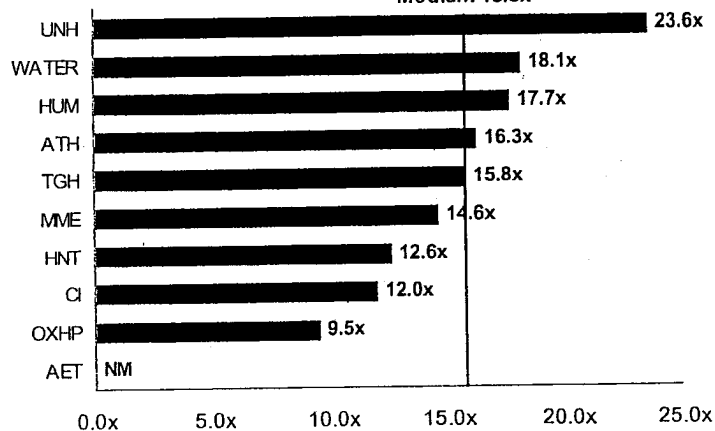
ENTERPRISE VALUE/LTM EBITDA

Median: 10.3x



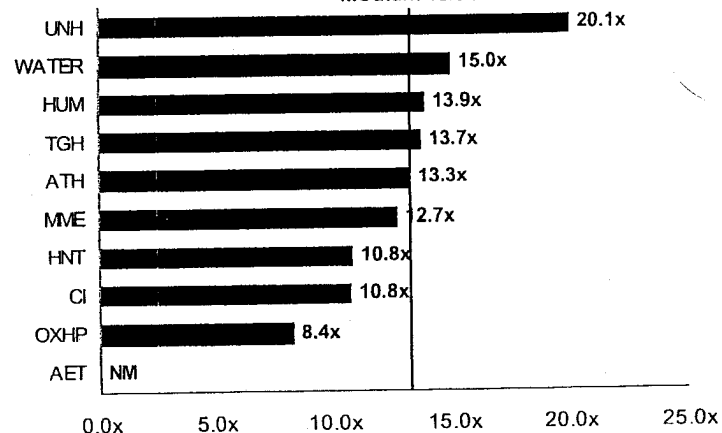
2001E P/E MULTIPLES (c)

Median: 15.8x



2002E P/E MULTIPLES (c)

Median: 13.3x



(a) WATER LTM data, membership data and enterprise value are 2001E pro forma for acquisition of RightCHOICE.

(b) Adjusted members equals total medical members adjusting Medicare members by a factor of 4.5 and ASO members by a factor of 0.2.

(c) As per First Call consensus estimates and closing prices as of November 14, 2001.

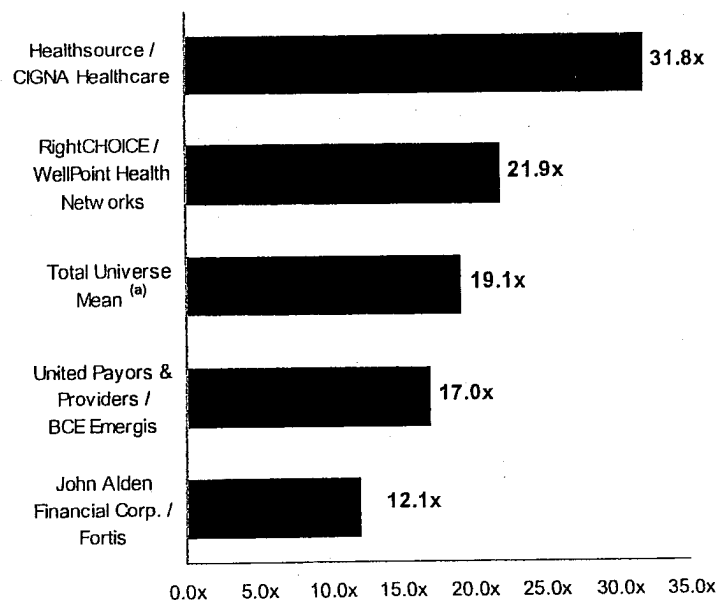
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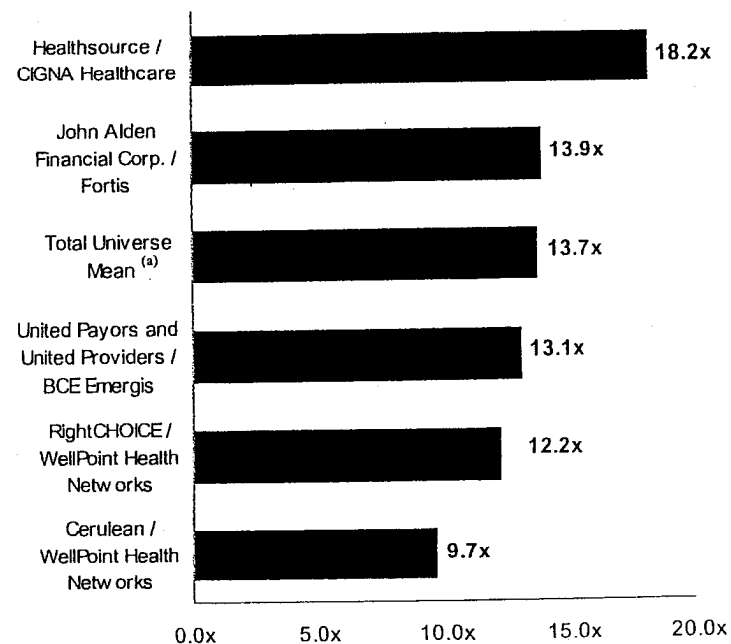
CONGRESS Valuation Considerations

Selected Precedent Transactions Analysis

NEXT TWELVE MONTHS P/E



ENTERPRISE VALUE/LTM EBITDA



(a) Average for total universe of selected precedent transactions in the Managed Care sector (see Appendix B).



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CONGRESS Valuation Considerations

CONGRESS Standalone DCF Analysis — Relevant Assumptions

Operating Assumptions

- ◆ Projections provided by WATER and CONGRESS Managements and reflect CONGRESS on a standalone basis
- ◆ Marginal tax rate of 20.2% assumed (38.4% for Synergies & Transaction Expenses scenario)

Value Assumptions

- ◆ Projected balance sheet as of December 31, 2002
- ◆ Present values as of December 31, 2002
- ◆ Terminal value exit multiples ranging from 6.0x – 10.0x 2007 projected EBITDA
- ◆ Perpetuity growth rates ranging from 2.0% – 6.0%
- ◆ After-Tax Weighted Average Cost of Capital (WACC) ranging from 10.0% – 15.0%

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CONGRESS Valuation Considerations

CONGRESS Standalone DCF Analysis

(\$ in millions)	Projected Fiscal Year Ending December 31,				
	2003	2004	2005	2006	2007
Net Income	\$147.9	\$183.8	\$216.1	\$257.5	\$299.8
Net Interest Expense / (Income)	(11.0)	(17.9)	(27.0)	(38.2)	(51.4)
Marginal Tax Rate	20.2%	20.2%	20.2%	20.2%	20.2%
Financing Tax Shield	2.2	3.6	5.4	7.7	10.4
Earnings Before Interest	\$139.2	\$169.5	\$194.6	\$227.0	\$258.8
Depreciation	47.0	57.4	68.7	73.0	70.5
Amortization of Intangibles	3.0	3.0	3.0	3.0	3.0
Change in Net Working Capital	(29.7)	(34.2)	(37.6)	(38.8)	(41.8)
Capital Expenditures	(70.0)	(76.0)	(82.4)	(89.4)	(97.0)
Unlevered Free Cash Flow	\$89.5	\$119.7	\$146.3	\$174.8	\$193.5
Terminal EBITDA					\$398.5

Note: Net income excludes non-cash gains from sale of DC building.

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CONGRESS Valuation Considerations

CONGRESS Standalone DCF Analysis (continued)

(\$ in millions)

Perpetuity Growth Rate				
2.0%	3.0%	4.0%	5.0%	6.0%

Implied PV of Terminal Value @ 12.5% WACC

\$1,098	\$1,225	\$1,383	\$1,582	\$1,843
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WACC	Enterprise Value as of 12/31/02				
10.0%	\$2,168	\$2,417	\$2,748	\$3,212	\$3,907
11.0%	1,912	2,099	2,338	2,658	3,105
12.5%	1,621	1,749	1,906	2,106	2,367
14.0%	1,405	1,496	1,606	1,740	1,907
15.0%	1,289	1,363	1,451	1,557	1,687

WACC	Implied Terminal EBITDA Multiple				
10.0%	6.5x	7.5x	8.9x	10.7x	13.5x
11.0%	5.8	6.6	7.6	8.9	10.8
12.5%	5.0	5.5	6.3	7.2	8.3
14.0%	4.3	4.8	5.3	6.0	6.8
15.0%	4.0	4.4	4.8	5.4	6.0

(\$ in millions)

Terminal EBITDA Multiple Range				
6.0x	7.0x	8.0x	9.0x	10.0x

Implied Terminal P/E Multiple

11.2x	12.5x	13.8x	15.2x	16.5x
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WACC	Enterprise Value as of 12/31/02				
10.0%	\$2,040	\$2,288	\$2,535	\$2,782	\$3,030
11.0%	1,961	2,198	2,434	2,671	2,907
12.5%	1,850	2,071	2,292	2,514	2,735
14.0%	1,747	1,954	2,161	2,368	2,575
15.0%	1,683	1,881	2,079	2,277	2,475

WACC	Implied Perpetuity Growth Rate				
10.0%	1.4%	2.5%	3.4%	4.1%	4.7%
11.0%	2.3	3.4	4.3	5.0	5.6
12.5%	3.7	4.8	5.7	6.5	7.0
14.0%	5.1	6.2	7.2	7.9	8.5
15.0%	6.0	7.2	8.1	8.8	9.4

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CONGRESS Valuation Considerations

CONGRESS DCF Analysis with Synergies & Transaction Expenses

(\$ in millions)	Projected Fiscal Year Ending December 31,				
	2003	2004	2005	2006	2007
Standalone Net Income	\$147.9	\$183.8	\$216.1	\$257.5	\$299.8
Net Interest Expense / (Income)	(11.0)	(17.9)	(27.0)	(38.2)	(51.4)
Operational Synergies	15.0	30.0	50.0	70.0	70.0
Negative Premium Tax Synergy	(32.4)	(34.6)	(36.9)	(39.3)	(41.8)
Acquisition Expenses	(32.4)	(24.3)	(24.3)	0.0	0.0
Depreciation (Additions) / Savings	0.8	4.0	9.5	15.8	22.9
Transaction Costs	(152.5)	0.0	0.0	0.0	0.0
Marginal Tax Rate	38.4%	38.4%	38.4%	38.4%	38.4%
Financing Tax Shield	4.2	6.9	10.4	14.7	19.7
Tax Effect of Synergies, Acq. Exp. and Transaction Costs	21.2	9.6	0.7	(17.8)	(19.6)
Negative Tax Synergies	(34.0)	(42.6)	(50.0)	(59.5)	(69.1)
Earnings Before Interest	(\$73.2)	\$114.7	\$148.4	\$203.1	\$230.5
Depreciation	47.0	57.4	68.7	73.0	70.5
Depreciation Additions / (Savings)	(0.8)	(4.0)	(9.5)	(15.8)	(22.9)
Amortization of Intangibles	3.0	3.0	3.0	3.0	3.0
NOL/AMT Credit	50.0	50.0	42.0	0.0	0.0
Change in Net Working Capital	(29.7)	(34.2)	(37.6)	(38.8)	(41.8)
One-Time CapEx	(23.1)	(9.0)	(3.0)	(7.0)	0.0
CapEx Savings	32.6	35.3	38.3	41.6	45.1
Standalone Capital Expenditures	(70.0)	(76.0)	(82.4)	(89.4)	(97.0)
Unlevered Free Cash Flow	(\$64.2)	\$137.3	\$167.9	\$169.7	\$187.4
Terminal EBITDA					\$449.6

Note: Net income excludes non-cash gains from sale of DC building.



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CONGRESS Valuation Considerations

CONGRESS DCF Analysis with Synergies & Transaction Expenses (continued)

(\$ in millions)

Perpetuity Growth Rate				
2.0%	3.0%	4.0%	5.0%	6.0%
Implied PV of Terminal Value @ 12.5% WACC				
\$1,065	\$1,189	\$1,342	\$1,535	\$1,788

(\$ in millions)

Terminal EBITDA Multiple Range				
6.0x	7.0x	8.0x	9.0x	10.0x
Implied Terminal P/E Multiple				
12.2x	13.7x	15.2x	16.7x	18.2x

WACC	Enterprise Value as of 12/31/02				
10.0%	\$1,998	\$2,239	\$2,560	\$3,010	\$3,685
11.0%	1,750	1,931	2,163	2,473	2,907
12.5%	1,467	1,591	1,744	1,937	2,190
14.0%	1,257	1,346	1,452	1,582	1,745
15.0%	1,145	1,217	1,303	1,405	1,531

WACC	Enterprise Value as of 12/31/02				
10.0%	\$2,109	\$2,388	\$2,667	\$2,946	\$3,225
11.0%	2,022	2,288	2,555	2,822	3,089
12.5%	1,899	2,149	2,398	2,648	2,897
14.0%	1,786	2,019	2,253	2,486	2,720
15.0%	1,715	1,938	2,162	2,385	2,609

WACC	Implied Terminal EBITDA Multiple				
10.0%	5.6x	6.5x	7.6x	9.2x	11.6x
11.0%	5.0	5.7	6.5	7.7	9.3
12.5%	4.3	4.8	5.4	6.2	7.2
14.0%	3.7	4.1	4.6	5.1	5.8
15.0%	3.4	3.8	4.2	4.6	5.2

WACC	Implied Perpetuity Growth Rate				
10.0%	3.2%	4.1%	4.8%	5.4%	5.8%
11.0%	4.1	5.1	5.8	6.3	6.8
12.5%	5.5	6.5	7.2	7.7	8.2
14.0%	6.9	7.9	8.6	9.2	9.6
15.0%	7.9	8.8	9.6	10.1	10.6

